

Exhibit 12

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Subject: BLM Operational Due Diligence
Date: October 2, 2008
Attendees: Bernard L. Madoff, Frank Di Pascali, Walter Noel, Jeffrey Tucker, Mark McKeefry, Amit Vijayvergiya (by phone)
Location: Offices of Bernard L. Madoff Investment Securities, LLC

PREAMBLE

1) Comments on BLM's market making business and profitability:

- Marketing making business has improved in profitability dramatically
- This has been the case for the past year
- Order flow has increased significantly
- BLM traded 600K trades on Friday [Sep 26], and on two other days (biggest days they've ever had)
- Average trading volume is around 250K – 400K per day
- When BLM executes 600K trades, he is not doing so at great profit, basically just to do the trade, accommodate the client.
- For a number of years their market making business was only running at a slight profit, but became a significant profit center again in the last year.
- BLM implied that some broker dealers probably considered closing their marketing making business pre-2007 (he claimed he never did).
- Currently the market making side of his business is more profitable than the proprietary trading side – this is not due to spreads widening – still only 1 penny b/a spread.
- Although market making profits have increased, it is not as profitable as when they used to make 30% on capital.
- Now they can make 10 – 15% on capital in their market making business and they have no risk in this business because they usually go out flat at the end of the day. This is a good, relatively low risk business for BLM.
- They believe that this will last a very long time. Why? Because the rise of ECN's and electronic trading networks (which provide very efficient low cost execution with good liquidity) that offer access to 'dark pools' of liquidity.
- BLM indicated that a great deal of liquidity in U.S. equities is available across U.S., and Europe – this is the way things work now and will likely continue working in the future.
- BLM has great access to liquidity and can offer this to both their SSC and market making business clients.
- The proprietary side of the business is still profitable for them.
- AV's NOTE: BLM has three business lines:
 - **Market Making:** high volume, low margin; profitable; volumes picking up
 - **Proprietary trading:** profitable; BLM trades about \$700MM of firm capital

- **SSC strategy:** profitable; BLM earns about 90bps of AUM; BLM previously indicated that he executes about \$20 billion, implying gross annual brokerage receipts of about \$180MM; this is likely his most profitable business line

2. Comments on DD meetings:

- BLM received a call from a friend of his at JPM who said he needed BLM to meet with some of the JPM people from London in order to do DD to provide leverage to some of BLM's clients incl Sentry. BLM refused.
- Same thing one week later. BLM refused; didn't want to 'just shake hands' and 'show them his office'. BLM says this is unbelievable.
- This is indicative of what's going on out there. Aversion to leverage, complex products that no one really understands.
- Even Risk Management departments who questioned these products where turned down b/c profits were so enormous.
- Recounted a story with ex "?" of Goldman Sachs; retired 5 yrs ago as second largest s/h who used to be in charge of equity derivatives desk.

3. Comments on current issues affecting Wall Street:

- The first problem with demise of Wall Street was that after Wall Street firms became public companies, their partners no longer had incentive to stay on top of it and firms began to manage to quarterly results.
- The partnership model was excellent and served to align the interest of clients with management.
- As investment banks began to manage for quarterly profits, and as profit margins in traditional business lines began to shrink, firms like Lehman started to do more esoteric, derivative products that were approved b/c they chased profits.
- Ultimately led to their demise and the current systemic problems

4. Comments on the government rescue package to unseize credit markets

- Government has no choice but to pass the bill

5. Comments on BLM's great aversion to leverage:

- BLM's experience having built a business from the ground up
- Not having much money in the early days

GENERAL

Please provide a list of key personnel involved in the split-strike conversion ("SSC") strategy. Provide a brief description of their roles.	The people involved in the SSC strategy are traders, system analysts, programmers and operations people. No names given.
Is there a succession plan in place? If yes, please provide details.	<p>Yes. BLM responded that no one has a right to know. It involves family and others who have great experience with the strategy. BLM says what guarantee will client give to remain in SSC if he lost 2%</p> <p>How long does BLM intend to be in business? Very long time</p> <p>Though BLM gave no specific details about the successions plan, he has 2 sons, Mark and Andrew Madoff who each head the listed and unlisted business lines. Additionally, Frank Di Pascali has worked the firm for 32 years and is primarily responsible for SSC operations.</p>
Provide a general description of the team responsible for executing the SSC strategy.	See above
TRADING	
<i>Trading Process</i>	
Describe procedures for trade entry and trade processing.	Not answered
Who authorizes the trades of the SSC? In the event that this person is not available, is anyone else authorized to trade the SSC?	<p>Bernie is only the one authorized to initiate the trades of the strategy. Bernie is always available to authorize the trade, wherever he is, but he is almost always in NYC.</p> <p>The models will tell them if correlation is being broken</p> <p>About 6 people make the call on when to enter and exit the strategy. Bernie is the only one authorized to make the final decision to enter or exit.</p>
Who is responsible for actually placing the trade orders of the SSC?	Traders, under the direction of supervisors
Who monitors trading?	Bernie, senior traders, and systems analysts that monitor the models. A number of people monitor the strategy each day once it has been implemented (incl compliance guidelines). About 6 ppl make the decision on when to exit the strategy.
How is unauthorized trading controlled?	<p>Supervisors oversee the traders who place the orders into their order entry system. Traders cannot access the system without a supervisor first entering their password.</p> <p>BLM is req'd to hold training seminars for his traders on unauthorized trading; his traders questioned why this was necessary because no one has access to information that they might be able to trade on.</p> <p>The system is automated to block or lock-out traders from trading in a stock until customer orders are completed.</p>

	BLM gave example of a short sale in London (they inadvertently made a short sale after the short selling ban had been placed and proactively notified the FSA); they are trying to automate the lock-out of stocks on the 'no short selling' list
How are executed trades allocated to accounts? Please explain in detail, particularly with respect to split fills.	Prorata based on assets. Split fills are also allocated prorata based on assets. You can verify this because returns between accounts are exactly the same except for fees
Who controls asset splits between trading books?	?? Assume supervisors (ie Frank?)
What front office system is used? Describe the capabilities and any known limitations.	Proprietary systems called "MISS" – Madoff Integrated Support System – that takes feeds from many market sources, including BBG, Thompson and other data sources. BLM has their own 'ticker plant' that is also proprietary. BBG does not have this. BLM developed this system. They hired people who wrote the software, they worked at BLM for a long time as consultants from an external software development firm; then BLM hired the main developers so they could continue to build and maintain the systems in house This basic system was sold to Goldman, after stripping away the parts that were proprietary to BLM. An important part of the NASDAQ platform was built by a BLM employee, Mr. Cassanova, who was seconded to NASDAQ for a year and a half.
What percentage of the trading of the SSC is completed electronically?	100%
What back office system is used? Describe the capabilities and any known limitations.	Hardware is IBM; software is proprietary
Options	
Provide details of the trade execution process for options.	Pricing and liquidity are negotiated by phone. Contracts are settled electronically (note: this is industry standard for OTC derivatives)
What is the reconciliation procedure for option trades?	Locked-in trade, settled electronically. Once the liquidity and price has been negotiated, it is uploaded in to their system. At that point the trade is 'locked-in' and there is no walking away from it. Rarely any errors and omissions or operating breaks. BLM doesn't have these because 95% of their trades are locked-in, automated trades therefore they don't have the same levels of errors and omissions ("e&o") as other brokerage firms that do things more manually. If they do 300,000 trades in a day, they may see less than 5 errors reported the next day (ie "you can count them on one hand") Frank gave the story of an NYSE trader that made a good living trading out of the errors of brokerage firms

How often is reconciliation performed?	Every morning a 'break sheet' (aka 'exception report') is produced. BLM's policy is that all errors must be closed out by the next day.
Describe the process and controls for settlement of option trades.	Electronic settlement
Describe the process and controls for dealing with trade errors and omissions for options.	Options errors are very rare because they are negotiated in advance and locked in their trading system with the c/p. There are typically very few errors; all must be resolved by next day
Please describe the procedures relating to collection of performance assurance (T-Bills) from options counterparties in connection with long put option purchases and, if relevant, payment of performance assurance to options counterparties in connection with short call option sales.	<p>c/p risk is limited by the amount of performance assurance held on behalf of their clients like FGG. They look at this performance assurance daily.</p> <p>Example: If I'm an institution that enters in to an OTC contract with GS, I'd have to post performance assurance to GS. Although GS would be required to put up performance assurance, a derivatives dealer is not required to do so, which is why BLM says he stopped dealing with derivatives dealers years ago and now goes directly to the other side (verify this -- not sure I recorded this correctly)</p> <p>BLM will not disclose the names of the c/p's 'for obvious reasons' (ie confidentiality)</p> <p>BLM holds the collateral at the level the negotiated margin ratio (ie between 15% and 25%, depending on the c/p) and this is marked to market on a daily basis.</p> <p>Frank said that Sentry does NOT have any direct c/p exposure because the trades are 'pooled on the A side' and 'pooled on the B side'. For example, CS acts as Agent and pools a lot of their clients' options trades and 'faces off' against BLM who also acts as Agent and also pools their clients' trades.</p> <p>All the c/p's are large institutions.</p> <p>BLM conducts c/p credit assessment, but he is most focused on the collateral that he receives from all c/p's who sell puts.</p> <p>Puts and calls are not necessarily matched at each c/p. Although BLM may choose to trade the same number of puts and calls with the same c/p, this does not necessarily need to be the case.</p>
What percentage of the value of the options is posted as performance assurance by each counterparty (please specify whether this is on market value or nominal value)?	Between 15% to 25% of the underlying in T-Bills
Are these T-Bills settled	Yes, in the name of BLM (must verify this with MM/JT).

at DTCC? In whose name are they settled?	
Segregation of Assets	
Do you use third party Custodians? If so, for what purpose?	No, all SSC stocks and options are custodied at BLM
Can BLM access the assets held in our cash and margin accounts for any purpose other than trading the SSC strategy? If so, please describe.	No, hypothecation is not permitted
Can any other entity access the assets held in our cash and margin accounts under any circumstance? If so, please describe.	No
CASH MOVEMENTS	
Who has the authority to request the movement of cash and securities held in client accounts?	There is a list of authorized signatories There is only one approved wire instruction on file regardless of the instructions that appear on the wire payment fax that BLM receives. In the case of FGG, this is the Fund's bank account at CITCO
Are dual signatories required? Please provide the names of people on the authorized signatory list.	Yes Names not provided
How are transfers logged?	Everything is logged electronically
Do money movements require any independent third party signature? Are dollar limits imposed?	Yes
SYSTEMS	
Please describe the experience and tenure of the team responsible for developing the models/algorithms used by the split strike conversion strategy.	Between 15 years to 47 years. Frank has 32 years with BLM
Please provide a general description of the models and algorithms and the factors upon which they are based?	Already answered in previous meetings (ie. Momentum, mean reversion, volatility, liquidity)
In addition to producing entry and exit signals of when to trade the SSC strategy, do the	Yes. Liquidity screens are an important part of the models. This relates to the stocks and options and is essential in determining when to enter or exit the strategy (ie. the amount of available liquidity in cash market equities is evaluated as is the amount of liquidity in the OTC

models/algorithms also indicate the percent of assets to deploy in the SSC strategy on any given trade day? If not, how is this decision made?	options market). The derivatives dealers initially provide 'indications of interest' relating to the amount of options they would be willing to trade (ie level of liquidity). When it comes time to actually trade the options, the price and quantity is negotiated and 'locked-in' (ie. Commitment to trade is established) and the trade is uploaded into BLM's system and settled electronically.
Have there been any changes to these models/algorithms in the past 3 years? If yes, please describe.	Yes, they are always looking at the models and fine-tuning them.
How many years of market data are used in the models/algorithms?	They are using their own data and ticker plant. This ticker plant can provide tick by tick data back 30 years at any point in time (to the second). 2 years of historical data is used to feed the models
RISK MANAGEMENT & INVESTMENT COMPLIANCE	
Please describe the systems, and procedures used to monitor compliance with the terms and conditions governing the execution of the SSC strategy (as outlined in the Trading Authorization agreement and the Terms & Conditions for Options Transactions). How frequently are these limits monitored and by whom?	The same models that are referenced in the Terms and Conditions are used to monitor the entry/exit. Correlation is monitored daily. BLM has not been in violation. Occasionally correlation has drifted down to the 95% level; BLM has exited the strategy when this has happened.
What actions would be taken if any of these limits were violated?	If correlation limit were to be breached, BLM would liquidate
Have any of these risk limits ever been violated? If so, when was the last time?	No
Do you trade the options upon completion of the stock basket trades on any given day, or are you trading the options positions at the same time as you trade the stocks (either buy or sell)?	Although there can be up to an hour between the time that stocks are purchased and the time that the corresponding puts are purchased, the time delay is typically not great. The puts are not, however, simultaneously purchased with the equities therefore there is some market risk.
Could there ever be a situation where an SSC	Yes, but very limited. BLM has previously mentioned that this may be about 1 hour.

client would have a stock basket unhedged for a period of time (i.e. during an implementation, exit or an options roll)?	
Do the long stocks held in the cash accounts cover the short calls held in the margin account? Can this be considered a form of collateral to the options counterparties that bought calls from the SSC account?	Yes. You can consider this a covered call – the amount of calls sold can not be greater than the amount of stock purchased.
If so, is there any circumstance in which these options counterparties that bought calls from the SSC accounts seize the stock	There is no circumstance in which an options c/p can seize stock (MM/JT to verify)
CAPACITY MANAGEMENT	
What is the maximum capacity of the SSC strategy?	Not answered
What is the projected time frame to reach capacity?	Not answered
DOCUMENTS REQUESTED	
Please provide the following documents: a. an organization chart b. proxy voting policy c. waiver of hypothecation d. OTC Options Risk Disclosure Statement e. Code of Ethics f. Advisor's Policy Statement on Insider Trading g. SAS 70 internal Controls Report h. Current Form ADV Part II	We asked for the Form ADV Part II – not clear whether BLM will provide the current 2008 version. I'd like to follow up with BLM to receive items c, e, f, and h

BLM and Frank were sensitive that the topics discussed during this meeting be kept confidential (ie. 'we not record' this meeting).